



DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

10 December 1982

The Rt Hon Michael Jopling MP
Government Chief Whip
12 Downing Street
London SW1

Dear Mr Jopling,

I attach a letter which I hope will be helpful to you in rebutting the charges being made by the Opposition about Norman Lamont's speech in the House on December 1st. All the information in that letter and in the Annexes is free to be disclosed to the Opposition and I see no reason why you should not hand them Annex B.

2 For your own private and personal information, you ought to know that the total job losses due to the BSC management action programme is likely to exceed 15,000. Quite a number of these have already been made as shown in in Annex B of the attached paper. There is still, however, a good deal more to come including the following list of closures which should not on any account be disclosed to the Opposition:

Hartlepool Plate and Pipe Mills	1100
Ravenscraig ingot route	700
Fullwood Foundry	65
BSC Chemicals	260
Section Mill (unspecified)	400

h 2525

3 These announcements will be made in due course by the management of British Steel Corporation and are independent of the statement which I expect to make before Christmas.

Yours sincerely,

Anthony Barber

*(approved by Secretary
& State and signed
in his absence)*



Secretary of State for Industry

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/C December 1982

The Rt Hon Michael Jopling MP
Chief Whip
12 Downing Street SW1

Handwritten signature: Hon Mr Jopling

You asked yesterday for material to use in countering Opposition criticism that major job losses are being announced by the British Steel Corporation before the Government have announced their decisions on the Corporation's future strategy and without Ministers giving Parliament advance notice of the current programme of redundancies and smaller plant closures.

2 The Opposition's criticism entirely misunderstands the problem and the nature of the relationship between the Government and the management of the British Steel Corporation. It has all along been the Government's policy that Mr MacGregor and his Board have been appointed to manage the BSC and that they can expect to do so without Government interference. The Government's role is confined to approving the Corporate Plan, giving consent to major investment projects and setting financial targets and external financing limits. There is no use expecting senior and experienced managers to run a competitive enterprise like the BSC if Ministers are constantly interfering in what they do.

3 The one major exception to this has been any question of the closure of one of the five main integrated plants operated by BSC - Port Talbot, Llanwern, Scunthorpe, Redcar and Ravenscraig. I have made it clear again and again in the House and outside that I would expect the Corporation to seek the Government's views on any such closure before making a decision.

4 The recent history can be summed up as follows. Until the spring, BSC looked set fair to break even in the current year (1982/83), but the collapse of the steel market following the American anti-dumping suits has led to a serious deterioration in BSC's prospects. In the summer, the BSC came to me and said they were reappraising their Corporate strategy with a view to providing a revised Corporate Plan for 1983/86. In the Autumn,



when the position had deteriorated even further they said they were considering more drastic options and it was at that point that I said any question of a closure of one of the five main steel works was one in which the Government would have to be involved. At the same time, Mr MacGregor outlined to me a "management action programme" of redundancies and smaller closures which had already been set in hand and would be implemented over the next twelve months or so. I made it clear to MacGregor that the implementation of this management action programme was for the Corporation and while the Government would expect to be kept informed in accordance with practice, announcements would be made not by the Government but by the Corporation at times chosen by the Corporation.

5 The distinction between the closure of any of the five major integrated steelworks on the one hand and steps taken in pursuant of this management action programme has always been made clear to the House. I attach at Annex A a list of Ministerial statements in the House since October 1982. I would, in particular, draw your attention to the sidelined passages and perhaps particularly to my supplementary answer to John Cunningham on 29 November during oral questions. Two days later on 1 December Norman Lamont made precisely the same point.

6 It is not, and never has been, the policy of this Government (or I believe of its predecessor) to announce individual plant closures or redundancies in the House. Given the clear statements of intent since 22 October, no-one could have had any possible grounds for believing that somehow the situation had changed that in future individual closures and redundancies would be notified to Parliament. That would have been quite inappropriate given the Government's clearly expressed attitude to the responsibilities of the management of the Corporation.

7 In these circumstances I hope you will be able to persuade the Opposition that their criticism of Norman Lamont's speech is illfounded. It would totally undermine the authority and competence of the management of BSC if they had now to be told that they were precluded from taking management action to stem the haemorrhage of losses unless they had first cleared every step with Ministers and Ministers had announced their decisions to Parliament. That would mean that it is Ministers and not the management who would be running the Corporation - something that every Government since the war has striven to avoid in the case of the nationalised industries. While we can entirely understand and sympathise with the Opposition's sense of dismay at the crisis that has overtaken the European steel industry, that must not and cannot be allowed to turn the relationship between Ministers and management on its head. The Corporation



entirely understands why the Government needs to be consulted about the closure of one of the five major steelworks and I have told the House that I hope to be in a position to make a statement about that before Christmas.

8 If the Opposition press for further details I see no reason why you shouldn't hand them the paper at Annex B. It is most important, however, to make clear to them that this is not the complete list and that further cost savings are in train and will be announced by the Corporation in due course. They will know, of course, that it is part of the ECSC plan for steel that all Governments should have phased out operating subsidies by the end of 1984. They must recognise that the BSC in common with their competitors overseas have to take the steps necessary to achieve that objective.

9 I am sending a copy of this letter to the Prime Minister and to John Biffen.

Yours sincerely,

Candice Varley

*(Approved by Secretary
of State and signed
in his absence)*



BSC STRATEGIC REVIEW : MINISTERIAL STATEMENTS IN THE HOUSE SINCE OCTOBER 1982

A 22 October, SoS (Industry), Statement on "Steel Exports (Brussels Discussions)", Col 667

"The right hon Gentleman referred to the report in The Guardian. Mr MacGregor has told the Government that the British Steel Corporation cannot now expect to meet its financial target to break even in 1982-83 and that the prospects for the following two years have deteriorated. We are discussing with the British Steel Corporation the economic and financial framework within which the corporation's new three-year plan from 1983 to 1986 will be prepared. I made it clear to the right hon Gentleman that no decision on the closure of major steel works would be taken by the British Steel Corporation without close consultation and the agreement of the Government. I shall not shuffle the responsibilities on to Mr MacGregor's shoulders. They are the Government's responsibilities; I am prepared to shoulder them. We do not yet know precisely what steps need to be taken to deal with the new situation, but I shall find an opportunity to inform the House as soon as decisions are taken."

B 9 November, SoS (Industry), speech during debate on Public Enterprise, Col 460

"The House will recall that I made a statement on the steel industry and answered questions on 22 October. Subsequently, there were questions about it at Question Time. I fully understand the anxieties that are felt in all parts of the House about the steel industry. Across the world, markets for steel have been collapsing and there is a world-wide excess of steel-making capacity. This country is not alone in facing a crisis in its steel industry.

The British Steel Corporation is now considering how to respond to the downturn and is reappraising its medium-term prospects. I have asked Mr MacGregor, the Chairman, to put forward a number of options for the future so that the Government can consider the problem on the widest canvas. In recent weeks, I have made it clear to the House that to the extent that these options concern the future of BSC's five major integrated steelworks, neither the Government nor the corporation has any intention of taking precipitate action based solely on short-term considerations. That would be very short-sighted.

However, we must take a careful look, as far ahead as possible, at the prospects for the steel industry if we are to reach sensible decisions on the future strategy of such an important basic industry. I do not want to disguise from the House the difficult decisions that may face the Government, and for which the Government will accept responsibility. However, the review of BSC's five main integrated works cannot and will not hold up other measures that BSC needs to take urgently to restore its financial and commercial position."

C 29 November, exchange during Oral Questions, Cols 4-5

Dr John Cunningham: "Is the Secretary of State aware that although the Labour Administration were reluctant to have massive unemployment from steel closures - we make no apology for that - other European Governments have shown even more reluctance to go along the path that he recommends? As the



Secretary of State has said that there is to be a total review of both the public and private steel industries, will he reiterate his commitment not to take decisions on any short-term considerations about the steel market? Will the right hon Gentleman assure us that there will be no further closures while that review is going on, such as those at Roundoak and Craigneuk? Will he also ensure that the evidence being collected by the Iron and Steel Trades Confederation about cheating on quotas and prices will be fully examined?"

Mr Jenkin: "Of course, we are not taking decisions on purely short-term considerations. I have made that point many times.

With regard to individual plant closures, I made it clear to the House, when I made my statement on 9 November, that the current review of the British Steel Corporation's strategy cannot be allowed to hold up necessary cost-saving measures that do not involve the closure of any of the five integrated steel-works. The corporation needs to take urgent action to restore its commercial and financial position. Those are matters for the corporation's judgement and do not require authorisation by Ministers."

D 1 December, MoS (Industry), speech during debate on the steel industry, Col 283

"The British Steel Corporation's half-yearly results are being announced today and they spell out all too clearly the deterioration in the corporation's position. Losses after interest for this half year amount to £154 million, which is better than the £208 million loss last year, but is way off the target before interest of break-even for 1982-83, which for this year is obviously no longer an attainable target.

Neither the Government nor the corporation can tolerate this haemorrhage and loss-making on this scale. Urgent cost-saving measures are being taken by the corporation to stem the losses. Further slimming is taking place and, as the House and hon Members have learnt, there have been closures of some smaller plants. Those decisions are within the responsibility of the management of BSC and do not require the Government's authorisation.

However, the Government, together with the corporation, are undertaking a review of the British Steel Corporation's five major steel making works. I emphasise that no decisions have been made. Obviously we are taking into account - I know that this is a matter of concern to the hon Member for Motherwell and Wishaw (Dr Bray) - matters such as costs, competitiveness, trends in the market, trends in the steel-making industries and implications for other industries. We are examining the matter not on the basis of short-term factors but on the basis of longer-term trends."

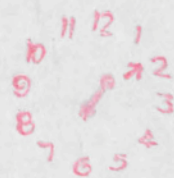
REDUNDANCIES AND MINOR PLANT CLOSURES ANNOUNCED BY BSC SINCE 1 AUGUST 1982

Date of announcement	Plant (main activity)	Jobs Lost	Date of implementation	Nature of reduction
11 August	London Works, Tipton (re-rolling mills)	480	November 1982	Complete closure
12 August	Ravenscraig (integrated works - strip products)	320	November 1982	Mothballing of one of three blast furnaces
5 August	Hartlepool (tubes and plates)	320	by November 1982	closure of coke ovens
20 August	Clydebridge (plate mill)	575	November 1982	closure of rolling mill
24 September	Scunthorpe (integrated works - general steels)	695	by March 1983	370 due to slim-lining 325 due to contracting out of non-production jobs
11 October	Clydesdale (tubes)	50		
12 October	Imperial Works, Airdrie (tubes)	130	November 1982	One production line mothballed
15 October	Dowlais (castings, ingot moulds)	144	December 1982	Partial closure of foundry
2 November	Corby (tubes)	600	500 by end March 1983 Remainder in 1983/84	Rationalisation of tube finishing and other cost reduction measures

Date of announcement	Plant (main activity)	Jobs Lost	Date of implementation	Nature of reduction
17 November	Round Oak (tubes & engineering Steels)	1286	By 23 December 1982	Complete closure
18 November	Craigneuk (castings, forgings & bars)	427	By end March 1983	Closure of bar mill
22 November	Stockton (pipes)	152	Not agreed	Reduction in capacity of 84" pipe mill
29 November	Stocksbridge and Tinsley Park	815) Half by end March 1983) rest by July 1983	Mothballing of one electric arc furnace at Stocksbridge. Remainder slimlining
	Rotherham	794		
	Central Services (special steels)	100		
2 December	Llanwern (integrated works - strip products)	350	By March 1983	Slimlining
2 December	Shotton (coated steels)	170	By March 1983	Slimlining (mainly management)
2 December	APG (Orb) Works (flat-rolled electrical sheets)	200	By March 1983	Slimlining
3 December	Fullerton, Rotherham (railway products)	157	March-June 1983	Closure
3 December	Trafford Park, Manchester (railway products)	50	April-June 1983	Slimlining
2 December	Teeside (integrated works-general steels)	1300	by March 1984	Slimlining

Date of announcement	Plant (main activity)	Jobs Lost	Date of implementation	Nature of reduction
3 December	Port Talbot (integrated works - strip products)	250	By March 1983	Slimlining
6 December	Ebbw Vale, Trostre and Velindre (Tinplate group)	117	By March 1983	Slimlining (mainly management)
6 December	Whiteheads (strip products)	200	By end February 1983	Reduction by half in number of shifts
To be announced				
10 December	Scunthorpe (integrated works - general steels)	500	By September 1984	Slimlining
Total job losses announced		<u>10282</u>		

10 DEC 1982



100 000 tes / year 4 years
Eurobridge

STEEL

BOOST PRODUCTION?

BSC is producing 10 million tonnes of liquid steel a year. There is capacity for 21 million tonnes. Perhaps the Opposition have forgotten that it requires 1½-2% growth in industrial production merely for steel production to remain constant. It is quite clear that there is no way in which they can double steel production overnight, or even in five years.

COLLAPSE IN THE MARKET

It is important to realise that the crisis facing the country is a worldwide crisis. Even in Japan, production this year is expected to be the lowest since 1972. Production in the European Community will probably be the lowest for 30 years. This is partly because of the worldwide recession. But it is also because worldwide capacity for steel production has been growing at a time when manufacturers are substituting materials such as plastics and ceramics for steel. In 1950, 32 countries produced steel. Today there are 76 producers. Worldwide capacity is now about 1,000 million tonnes while worldwide demand will fall below 700 million tonnes. We cannot isolate ourselves from these trends.

LACK OF COMPETITIVENESS

Closures in the United Kingdom have arisen largely because of a lack of competitiveness. In 1979 the United Kingdom had a workforce that was 20% greater than in France, but it produced significantly less. West Germany had a workforce 50% greater than ours and it managed to produce about twice as much steel as we did. In BSC 99 tonnes of crude steel were produced for every employee in 1979. Now the figure is 138 tonnes. The last Labour Government's failure to act led to overmanning and a lack of competitiveness which did grave damage to our steel industry and the prospects of those who worked in it.

THE OPPOSITION'S RECORD

(a) It may seem that the United Kingdom has made all the sacrifices since 1979 while others have done nothing. But the picture looks different if we measure it from 1974. From that date the percentage fall in United Kingdom production is similar to that in the Community as a whole. The Opposition may not like this comparison. They like to think the problem did not arise until 1979. The tragedy is the way in which the Labour Administration, between 1974 and 1979, under ^{the} Beswick ^{Review}, delayed closures which were inevitable and necessary. When the closures came they had to be more severe than they need have been if the Labour Administration had had the guts to act.

(b) I remember the RHG the Leader of the Opposition speaking at Ebbw Vale in 1975, and saying that the "real choice is whether we condemn ourselves to a slow, lingering death, or whether we are going to get on with the programme of the resurrection of the whole community". If only they had got on with the programme of resurrecting the whole community!

(c) I also remember the RHG saying that he had more agony over this subject than any other. He went on to say "if you dodge the truth, it will end in disaster". They dodged the truth: we will have to cope with the consequences.

THE FIVE MAJOR PLANTS

We will not take hasty decisions based only on short term factors. We want a sound steel industry in the United Kingdom. We are examining all the possibilities with Mr. Macgregor and his colleagues as carefully as we can. I hope we will be in a position to announce decisions before the Christmas Recess.

/ RECENT REDUNDANCIES

RECENT REDUNDANCIES

As we have repeatedly made clear to the House in recent weeks, the current review of BSC's strategy cannot be allowed to hold up cost-saving measures which do not involve the closure of any of the five integrated steelworks. The Corporation need to take urgent action to restore their commercial and financial position. These measures are a matter for BSC's judgement and do not require authorisation by the Government.

IMPORTS

(a) Anti-dumping measures and third world imports: we should not forget that in many of the third world countries we are net steel exporters, and to shut out ~~those~~ ^{their} imports would only invite retaliation. But if trade is to be free, it must also be fair. We have the advantage of the Community's voluntary restraints arrangements which are working reasonably well. Where they are not, firm action has been taken. Anti-dumping duties have been imposed on steel imports from Spain and Brazil. Quotas have been set up against steel imports from Czechoslovakia and Bulgaria. Last month, anti-dumping investigations were opened against imports of coil from Brazil, Canada, Argentina and Venezuela. For the future, the Community has recently agreed measures that ~~is~~ tighten the voluntary restraint arrangements in 1983. The aim is to reduce the amount that is imported into the Community to 12½% below the 1980 level.

(b) Effect of the strike: Imports from ~~third world~~ countries outside ~~the E~~ have been little higher than in recent years. Imports from the Community however rose sharply in 1980. In the mid 1970s they averaged between 12 and 14 per cent. In 1980, the year BSC went on strike, they jumped to 22 per cent. Since then they have run at about 18%. There is no disputing the fact that since the strike we have lost a significant slice of the market to imports from Europe. There is no plainer demonstration of the fact that strikes can threaten jobs.

at
about 90%
of the UK
market

THE COMMUNITY

(a) Job losses in the UK steel industry have not been carried out as a favour to the rest of Europe; they have been essential to create a more competitive industry. Best hope for the industry lies in supporting the anti-crisis measures agreed within the Community. These include price rules to ensure that producers do not price their steel unfairly, and mandatory production quotas to ensure that the cake is shared out equitably. Voluntary restraint arrangements limit imports from the EC's main supplying countries. And the State aids decision taken in 1981 means that Member States have to agree on adequate cuts in capacity before giving further subsidies to their industries. We have made it quite clear that we want these measures enforced fairly.

(b) The idea that the United Kingdom will be better off settling its own problems outside the Community is a myth. It is propagated by those who have not yet learned the lesson from the recent dispute with the United States. This dispute put about £50 million of UK exports at immediate risk. It was the Community's combined strength which enabled us to secure a deal. Although the European Council agreed that the Member States worst affected could seek bilateral agreements with the United States, the Americans rejected the proposals we put to them.

Import Penetration

UK	27%
France	43%
FRG	35%

Eurovoute Channel Bridge

Half of the steel would come from France
100 000 tonnes for 5 years = 500,000 tes.



STEEL

REVISED BRIEF

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

ms

STEEL

Points to Make

1. Congratulate Vice-President Davignon on EC/US Steel agreement.
An excellent example of effective Community action.

2. Similar need for concerted action on international front.
Greatly concerned about current instability in EC Steel market.
Welcome measures proposed by Davignon in Elsinor (18 November) and
hope that these can be quickly implemented and rigorously enforced.

3. Need is now for Community to face up to vital longer term
problems - the need to bring supply more closely into line with
demand. At Elsinor there was a clear agreement by nine Member States
on the need for capacity ^{re}reductions of the order of 30-35million
tonnes. All Member States agreed on the need to maintain the
disciplines of the state aids regime.

4. Welcome the Commission's resolve to administer that regime
strictly and fairly. Regret that the extent of capacity cutback
so far is inadequate although some partners are now making major
contributions.



5. Need a clear commitment by the European Council to abide by the disciplines of the State Aids code and carry out cuts in capacity on an equitable basis. Performance of UK industry so far is unchallengable - Vice-President Davignon is on the record as having said that we have made the greatest sacrifice. Essential that everyone bears - and, politically, is seen to bear - his share of the burden.

6. Suggest that the Commission reports to the next European Council on the progress made in cutting capacity.

CONFIDENTIAL

DRAFT TELEGRAM

TO IMMEDIATE UKREP BRUSSELS

Repeated for info to (Immediate) Paris, Bonn (Routine) Luxembourg

MIPT

Steel: SAARSTAHL

Following is text of message from Secretary of State for Industry to Andriessen, for delivery before the FAC on 13 December.

Begins

Dear Franz

I was greatly concerned to learn about the Commission's decision earlier this week concerning aid for Saarstahl. As it has been explained to me, the aid appears to have been authorized without any identification of the capacity that is to be closed and without a clear analysis of Saarstahl's prospects for viability. [It therefore appears, prima facie, to be in conflict with the provisions of the Steel Aids Decision.] From my meeting with Stevie Davignon on 11 November, I had understood that the granting of aid to Saarstahl for November was conditional upon the Federal Republic of Germany producing restructuring proposals by early December. As far as I am aware, no such proposals have been received by the Commission.

2 You know of my concern, expressed at this meeting and later both to you and Stevie at the Informal Meeting of Industry Ministers, that the terms of the Steel Aids Decision should be applied strictly and fairly. This is critical for the success of the Community's steel policy, and allows Member States such as my own to carry through the painful decision necessary to restore our industry to viability.

3 I am to make a statement to the House of Commons towards the end of next week on the planning assumptions which the British Steel Corporation is to make about the future configuration of their major plants. I do not need to tell you that this is a matter of highest political interest. I shall therefore need to be in a position to tell the House the extent to which the aid to Saarstahl, which has attracted a great deal of attention in the UK, is consistent with the principles which the Commission has put forward, and which the UK has fully supported. I should therefore be grateful for your urgent advice on this point.

4 I am copying this letter to Stevie Davignon.

PATRICK JENKIN